

**GLADSTONE AREA SCHOOLS**

**GLADSTONE, MICHIGAN**

**FINANCIAL REPORT WITH  
SUPPLEMENTAL INFORMATION**

**June 30, 2008**

# GLADSTONE AREA SCHOOLS

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**ANDERSON, TACKMAN & COMPANY, PLC**

CERTIFIED PUBLIC ACCOUNTANTS

OFFICES IN MICHIGAN AND WISCONSIN

Kristine P. Berhow, CPA, Principal  
Alan M. Stotz, CPA, Principal  
Raymond B. LaMarche, CPA, Principal  
Erkki M. Peippo, CPA, PC, Principal

Kevin C. Pascoe, CPA  
Laura L. Schwalbach, CPA

## INDEPENDENT AUDITOR'S REPORT

Board of Education  
Gladstone Area Schools  
Gladstone, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Gladstone Area Schools (the School District), as of and for the year ended June 30, 2008, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Gladstone Area Schools, as of June 30, 2008, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2008, on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 9 and 34 through 43, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District's basic financial statements. The statements listed as other supplemental information in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the Gladstone Area Schools. The other supplemental information and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Anderson, Tackman & Company P.C.*

Certified Public Accountants

October 31, 2008

## **GLADSTONE AREA SCHOOLS**

### **Management's Discussion and Analysis**

This section of the Gladstone Area School's annual financial report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2008. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

Generally accepted accounting principles (GAAP) according to GASB 34 requires the reporting of two types of financial statements: District-wide Financial Statements and Fund Financial Statements. These statements are organized so the reader can understand Gladstone Area School's financially as a whole. The District-wide Financial Statements provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a long-term view of those finances. The Fund Financial Statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The Fund Financial Statements look at the School District's operations in more detail than the government-wide financial statements by providing information about the School District's most significant fund, the General Fund, with all other funds presented in one column as nonmajor funds. The remaining statement, the statement of fiduciary net assets, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

#### **Financial Section**

##### Basic Financial Statements

- District Wide Financial Statements

##### Fund Financial Statements

- Balance Sheet-Governmental Funds
- Statement of Revenues, Expenditures
- Statement of Fiduciary Net Assets
- Notes to Financial Statements

##### Required Supplemental Information

- Budgetary Comparison Schedules

##### Other Supplemental Information

- Combining Balance Sheet Nonmajor Governmental Funds
- Combining Statement of Revenues, Expenditures, and Changes in Fund Balances-Nonmajor Governmental Funds

# GLADSTONE AREA SCHOOLS

## Management's Discussion and Analysis

### The School District as a Whole

The following summarizes the net assets at fiscal year ended June 30, 2007 and 2008:

### NET ASSETS SUMMARY

<b>Assets</b>	<u><b>2007</b></u>	<u><b>2008</b></u>
Current Assets	\$ 4,583,948	\$ 4,490,003
Capital Assets	<u>\$13,479,443</u>	<u>\$ 13,051,106</u>
Total Assets	<u><b>\$18,063,391</b></u>	<u><b>\$ 17,541,109</b></u>
<b>Liabilities</b>		
Current Liabilities	\$ 4,665,186	\$ 4,357,310
Long-term Liabilities	<u>\$16,353,496</u>	<u>\$ 15,447,363</u>
Total Liabilities	<u><b>\$21,018,682</b></u>	<u><b>\$ 19,804,673</b></u>
<b>Net Assets</b>		
Invested in property and equipment-net of related debt	\$ (442,150)	\$ (163,894)
Restricted	380,192	449,356
Unrestricted (Deficit)	<u>(2,893,333)</u>	<u>(2,549,026)</u>
Total Net Assets	<u><b>\$ (2,955,291)</b></u>	<u><b>\$ (2,263,564)</b></u>

The above analysis focuses on the net assets. The School District's net assets were a \$2,263,564 deficit as of June 30, 2008. Capital assets, net of related debt, totaled a \$163,894 deficit. This compares the original cost, less depreciation of the School District's capital assets, to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net assets of \$449,356 are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. The remaining \$2,549,026 deficit represents the accumulated results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

### **Capital Assets and Debt**

#### **Capital Assets**

At June 30, 2008, the District had \$22,684,846 invested in a broad range of capital assets, including land, buildings, furniture and equipment.



## GLADSTONE AREA SCHOOLS Management's Discussion and Analysis

	<u>2007</u>	<u>2008</u>
Land	\$ 149,340	\$ 149,340
Land Improvements	553,969	553,969
Buildings and Improvements	20,032,368	20,051,160
Vehicles	1,043,442	1,111,300
Machinery and Equipment	<u>794,615</u>	<u>819,077</u>
Total	\$22,573,734	\$22,684,846
Less Accumulated Depreciation	<u>(9,094,289)</u>	<u>(9,633,740)</u>
Net Total	<u>\$13,479,445</u>	<u>\$13,051,106</u>

This was an increase in capital assets of \$111,112 over last year and includes land improvements, building improvements, vehicles, and equipment. Depreciation expense for the year is \$539,451.

### Debt

At the end of this year the District had \$13,215,000 in General Obligation Bonds outstanding. This is a decrease of \$685,000, which is the result of principal payments made on the bonds and refunding during the year.

## OPERATIONS

The results of this year's operations for Gladstone Area Schools as a whole are reported in the statement of activities, which show the changes in net assets for fiscal year 2008. Following the rules of GASB 34, a revenue and expense comparison to the previous year is shown.

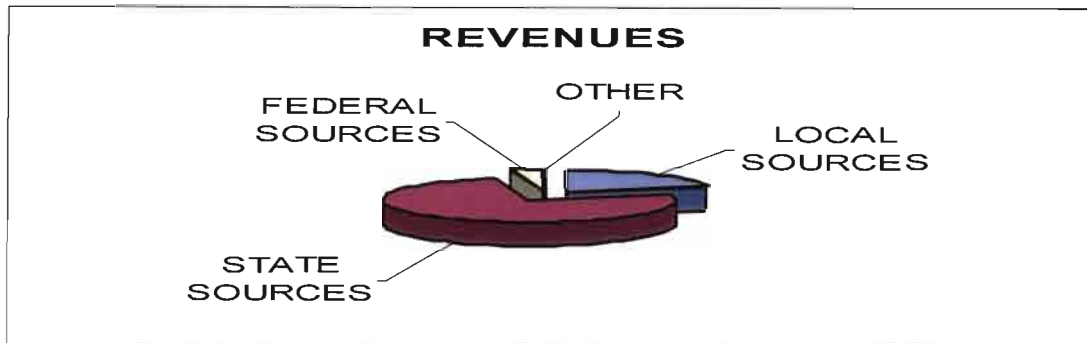
<b>Program Revenues:</b>	<u>2007</u>	<u>2008</u>
Charges for Services	\$ 370,939	\$ 340,961
Operating Grants and Contributions	<u>1,449,142</u>	<u>1,261,297</u>
Total Program Revenue	<u>\$ 1,820,081</u>	<u>\$ 1,602,258</u>
<b>General Revenues:</b>		
Property taxes levied for general operations	\$ 781,533	\$ 780,355
Property taxes levied for debt service	1,657,952	1,773,071
State Foundation Allowance	10,624,048	10,505,932
Other	<u>219,888</u>	<u>244,736</u>
Total General Revenues	<u>\$13,283,421</u>	<u>\$13,304,094</u>
Total Revenues	<u>\$15,103,502</u>	<u>\$14,906,352</u>
<b>Expenses:</b>		
Instruction	\$ 8,047,733	\$ 7,894,705
Support Services	4,333,427	4,190,863
Depreciation-Unallocated	535,239	539,451
Interest on Long-Term Debt	681,916	774,339
Athletics	189,137	189,329
Food Services	461,311	499,143
Public Library	<u>110,663</u>	<u>113,067</u>
Total Expenses	<u>\$14,359,426</u>	<u>\$14,200,897</u>
Change in net assets	<u>\$ 744,076</u>	<u>\$ 705,455</u>

## **GLADSTONE AREA SCHOOLS Management's Discussion and Analysis**

As indicated above, net assets increased by \$705,455. This increase relates directly to the operations of the District during the year.

### **REVENUES**

The following chart illustrates the District's sources of revenues:



#### **Sources of Revenues**

Local sources of revenues total \$3,061,650 and include revenues to the General Fund of \$906,638, School Lunch Fund of \$224,835, Athletic Fund of \$40,658, Public Library Fund of \$116,448 and Debt Retirement Fund of \$1,773,071.

State sources of revenues total \$11,223,113 and include revenues to the General Fund of \$11,197,538, School Lunch Fund of \$21,421, and Public Library Fund of \$4,154. State Sources of revenue make up 90.28% of General Fund Revenues. This ties the District directly to the State's overall economy which is still struggling.

Federal sources of revenues total \$514,815 and include revenues to the General Fund of \$298,844, and School Lunch Fund of \$215,971.

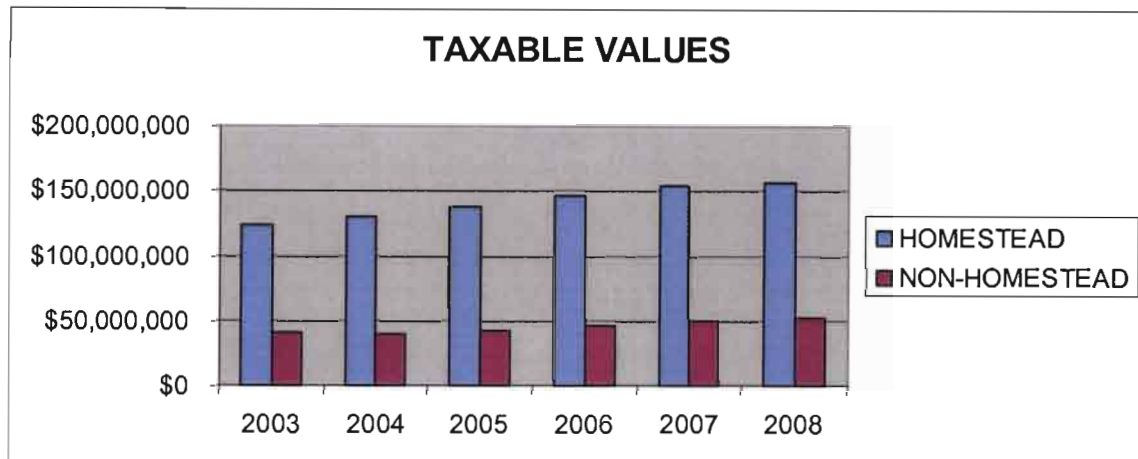
Other sources of revenues total \$11,313 and include revenues to the Debt Service Fund of \$4,633 and School Lunch Fund of \$6,680.

#### **Property Taxes**

A significant portion of local revenue is provided from property taxes for the General Fund and Debt Retirement Fund. Property tax revenue totaled \$2,553,426. This amount is obtained through a voter approved 18-mill levy on the taxable value of non-homestead properties for the District's operations and a voter approved 8.56-mill levy on the taxable value of all properties, homestead and non-homestead, for debt interest and principal payments. Over the last 5 years taxable values have increased on average 5.03% and 5.26% for homestead and non-homestead properties, respectively. The following graph illustrates this increase:



## GLADSTONE AREA SCHOOLS Management's Discussion and Analysis

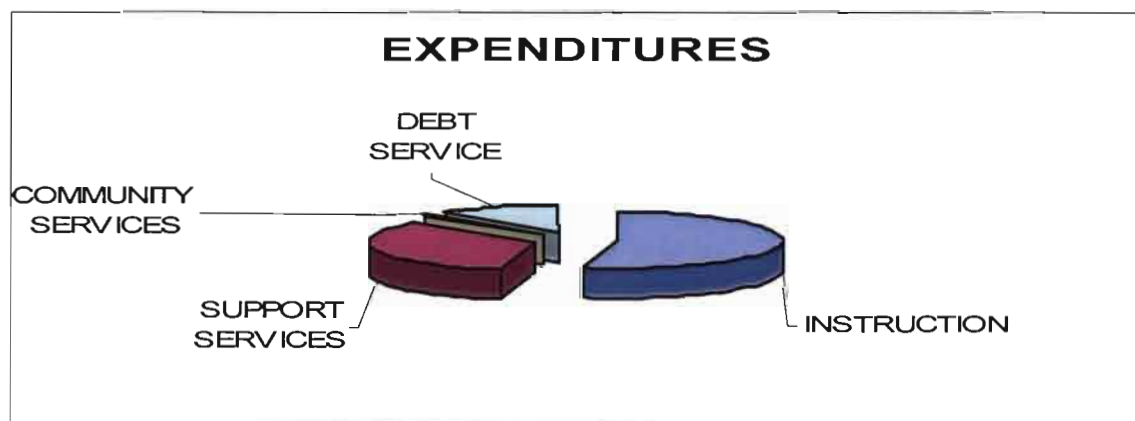


### Unrestricted State Aid Foundation Allowance

The most significant portion of funding to the District is through the foundation allowance. The foundation allowance is funding from the state for each student set annually. The District's foundation allowance is \$7,204 per student for the 2007-2008 fiscal year. The number of students to be funded is calculated by student enrollment blended at 75% of current year September count and 25% of prior year February count. Total blended student enrollment for this fiscal year is 1610.78. The overall funding is then reduced by the District's non-homestead tax levy based on 18-mills.

### EXPENDITURES

The following chart illustrates the District's expenditures:



Total Governmental Fund Expenditures are \$14,739,691 and include Instruction of \$7,843,068, Support Services of \$4,974,819, Community Services of \$113,067, and Debt Service of \$1,808,737. School Lunch Fund and Athletic Fund expenses are included in Support Services.

# **GLADSTONE AREA SCHOOLS**

## **Management's Discussion and Analysis**

### **Economic Factors Affecting our Budget**

The Board of Education and administration consider many factors when setting the School District's 2008 fiscal year budget. Two of the major factors affecting the budget are the student count and the State funding of unrestricted foundation allowance.

The 2008 budget was adopted in June 2007, based on an estimate of students that will be enrolled in September 2007. In general, our area is experiencing a declining school age population. It is anticipated our student count will trend downward over the next 5 years before leveling out. At the same time, our state's economy is suspect and an economic turn around is not predicted in the next few years. With these factors in mind, our district must closely monitor its budget to maximize revenues and reduce expenditures wherever possible.

### **Original vs. Revised Budget**

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year.

As a matter of practice, the District amends its budget three times during the school year. For fiscal year 2007-2008, the budget was revised in October 2007, March 2008, and June 2008.

### **General Fund Revenues - Budgeted**

Total revenues-June revision	\$12,501,766
Total revenues-original budget	<u>12,594,863</u>
Difference	<u>\$ (93,097)</u>

### **General Fund Revenues - Actual**

The District's actual general fund revenues (including Interest Earned) were \$12,480,338 which is a negative variance of .17% from the June budget revision. The largest factor of this variance involved our ability to carry over grant funding into fiscal year 2009.

### **General Fund Expenditures - Budgeted**

Total expenditures-June revision	\$12,498,087
Total expenditures-original budget	<u>12,594,628</u>
Difference	<u>\$ (96,541)</u>

# **GLADSTONE AREA SCHOOLS**

## **Management's Discussion and Analysis**

### **General Fund Expenditures - Actual**

The District's actual general fund expenditures were \$12,372,484 which is a negative variance of 1.00% from the June budget revision. The largest factor of this variance also involved our ability to carry over grant funds into fiscal year 2009.

### **Summary of General Fund Financial Performance**

The June budget amendment projected a year end increase of \$3,679 to our fund balance. The actual increase in fund balance was \$107,854. There were three significant factors contributing to this unanticipated increase in fund balance:

1. Medicaid revenues were well above budget
2. We received an unanticipated refund from our property/casualty/liability insurer
3. ISD billback costs were down

### **Contacting the District's Financial Management**

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Business Office at Gladstone Area Schools, 400 South Tenth Street, Gladstone, Michigan, 49837.

**GLADSTONE AREA SCHOOLS**

**STATEMENT OF NET ASSETS**

June 30, 2008

	<u>Governmental Activities</u>
ASSETS:	
Current Assets:	
Cash and Equivalents	\$ 2,040,980
Investments	113,541
Accounts Receivable	2,325,115
Inventories	<u>10,367</u>
Total Current Assets	<u>4,490,003</u>
Non-Current Assets:	
Capital Assets - net	<u>13,051,106</u>
Total Assets	<u><u>\$ 17,541,109</u></u>
Liabilities:	
Current Liabilities:	
Accounts Payable	\$ 307,362
Notes Payable	1,800,000
Internal Balances	1,850
Interest Payable	211,904
Deferred Revenue	10,047
Accrued Payroll	825,542
Accrued Employee Benefits	366,741
Current Maturities of Long-Term Debt	<u>833,864</u>
Total Current Liabilities	<u>4,357,310</u>
Non-Current Liabilities:	
Bonds Payable	13,331,323
Notes Payable	1,412,380
Compensated Absences Payable	1,332,324
Early Retirement Payable	205,200
Less Current Maturities Reported Above	<u>(833,864)</u>
Total Non-Current Liabilities	<u>15,447,363</u>
Total Liabilities	<u><u>\$ 19,804,673</u></u>
Net Assets:	
Invested in Capital Assets, Net of Related Debt	\$ (163,894)
Restricted for:	
Debt Service	449,356
Unrestricted (Deficit)	<u>(2,549,026)</u>
Total Net Assets	<u><u>\$ (2,263,564)</u></u>

See accompanying notes to financial statements.

**GLADSTONE AREA SCHOOLS****STATEMENT OF ACTIVITIES**

For the year ended June 30, 2008

FUNCTIONS/PROGRAMS:	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets - Governmental Activities
		Charges for Services	Operating Grants and Contributions	
Instruction:				
Basic Programs	\$ 6,399,437	\$ 53,104	\$ 9,420	\$ (6,336,913)
Added Needs	1,495,268	-	996,820	(498,448)
Total Instruction	7,894,705	53,104	1,006,240	(6,835,361)
Support Services:				
Pupil	416,699	-	-	(416,699)
Instructional Staff	254,338	-	-	(254,338)
General Administration	254,475	-	-	(254,475)
School Administration	988,221	-	-	(988,221)
Business	215,192	-	-	(215,192)
Operation and Maintenance	1,225,317	-	-	(1,225,317)
Pupil Transportation	611,150	-	-	(611,150)
Activities Office	123,525	-	-	(123,525)
School Improvement	2,636	-	-	(2,636)
Outgoing Transfers	99,310	-	-	(99,310)
Total Support Services	4,190,863	-	-	(4,190,863)
Other:				
Depreciation - Unallocated	539,451	-	-	(539,451)
Interest on Long-Term Debt	774,339	-	-	(774,339)
Athletics	189,329	40,658	-	(148,671)
Food Services	499,143	231,515	237,393	(30,235)
Public Library	113,067	15,684	17,664	(79,719)
Total Other	2,115,329	287,857	255,057	(1,572,415)
Total Governmental Activities	\$ 14,200,897	\$ 340,961	\$ 1,261,297	(12,598,639)
General Revenues:				
Taxes:				
Property Taxes Levied for General Operations				780,355
Property Taxes Levied for Debt Service				1,773,071
State Aid Formula Grants				10,505,932
Medicaid Reimbursement				23,341
Investment Earnings				96,269
City of Gladstone Public Library Appropriation				25,000
Penal Fines for Public Library Operations				62,255
Rental of School Facilities				6,149
Miscellaneous Sources				31,722
Total General Revenues				13,304,094
CHANGE IN NET ASSETS				705,455
Net Assets, Beginning of Year				(2,955,291)
Prior Period Adjustment				(13,728)
Net Assets, Beginning of Year, As Adjusted				(2,969,019)
NET ASSETS, END OF YEAR				\$ (2,263,564)

See accompanying notes to financial statements.

GLADSTONE AREA SCHOOLS

BALANCE SHEET  
GOVERNMENTAL FUNDS

June 30, 2008

	General	Debt Service	Other Nonmajor Governmental Funds	Total Governmental Funds
ASSETS:				
Cash and Equivalents	\$ 1,359,818	\$ 390,039	\$ 291,123	\$ 2,040,980
Investments	-	-	113,541	113,541
Accounts Receivable	2,313,429	-	11,686	2,325,115
Due from Other Funds	201,782	1,731	34,858	238,371
Inventories	-	-	10,367	10,367
<b>TOTAL ASSETS</b>	<b>\$ 3,875,029</b>	<b>\$ 391,770</b>	<b>\$ 461,575</b>	<b>\$ 4,728,374</b>
LIABILITIES:				
Accounts Payable	\$ 299,737	\$ 314	\$ 7,311	\$ 307,362
Notes Payable	1,800,000	-	-	1,800,000
Due to Other Funds	-	-	240,221	240,221
Interest Payable	66,240	-	-	66,240
Deferred Revenue	69,380	-	8,461	77,841
Accrued Payroll	823,796	-	1,746	825,542
Accrued Employee Benefits	359,447	-	7,294	366,741
<b>TOTAL LIABILITIES</b>	<b>3,418,600</b>	<b>314</b>	<b>265,033</b>	<b>3,683,947</b>
FUND BALANCES:				
Fund Balance:				
Reserved for Inventories	-	-	10,367	10,367
Reserved for Debt Service	57,900	391,456	-	449,356
Unreserved:				
Undesignated	398,529	-	-	398,529
Undesignated - Special Revenue Funds	-	-	37,776	37,776
Undesignated - Capital Project Funds	-	-	148,399	148,399
<b>TOTAL FUND BALANCES</b>	<b>456,429</b>	<b>391,456</b>	<b>196,542</b>	<b>1,044,427</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 3,875,029</b>	<b>\$ 391,770</b>	<b>\$ 461,575</b>	<b>\$ 4,728,374</b>

See accompanying notes to financial statements.



**GLADSTONE AREA SCHOOLS**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS**

June 30, 2008

Total fund balances - governmental funds	\$ 1,044,427
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds. The cost of the assets is \$22,684,846, and the accumulated depreciation is \$9,633,740.	13,051,106
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Long-term assets that are not available to pay for current period expenditures and are shown as deferred in the specific governmental funds.	67,794
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Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the specific governmental funds. Long-term liabilities at year-end consist of the following:

Bonds payable	\$ 13,331,323	
Note payable - State Bond Loan Fund	1,412,380	
Accrued interest on bonds and notes	145,664	
Compensated absences	1,332,324	
Early retirement payable	<u>205,200</u>	<u>(16,426,891)</u>

Total net assets - governmental activities	<u>\$ (2,263,564)</u>
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See accompanying notes to financial statements.

GLADSTONE AREA SCHOOLS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS

For the year ended June 30, 2008

	General	Debt Service	Other Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:				
Local Sources	\$ 906,638	\$ 1,773,071	\$ 381,941	\$ 3,061,650
State Sources	11,197,538	-	25,575	11,223,113
Federal Sources	298,844	-	215,971	514,815
Other	-	4,633	6,680	11,313
TOTAL REVENUES	12,403,020	1,777,704	630,167	14,810,891
EXPENDITURES:				
Instruction:				
Basic Programs	6,347,800	-	-	6,347,800
Added Needs	1,495,268	-	-	1,495,268
Total Instruction	7,843,068	-	-	7,843,068
Support Services:				
Pupil	416,699	-	688,472	1,105,171
Instructional Staff	254,338	-	-	254,338
General Administration	254,475	-	-	254,475
School Administration	988,221	-	-	988,221
Business	215,192	-	-	215,192
Operation and Maintenance	1,225,317	-	-	1,225,317
Pupil Transportation	611,150	-	-	611,150
Activities Office	123,525	-	-	123,525
School Improvement	2,636	-	-	2,636
Outgoing Transfers	99,310	-	-	99,310
Community Services	-	-	113,067	113,067
Capital Outlay	67,858	-	27,626	95,484
Debt Service	88,198	1,720,539	-	1,808,737
Total Support Services	4,346,919	1,720,539	829,165	6,896,623
TOTAL EXPENDITURES	12,189,987	1,720,539	829,165	14,739,691
EXCESS REVENUES (EXPENDITURES)	213,033	57,165	(198,998)	71,200
OTHER FINANCING SOURCES (USES):				
Interest Earned	77,318	11,849	7,102	96,269
Operating Transfers In	-	-	182,497	182,497
Operating Transfers Out	(182,497)	-	-	(182,497)
TOTAL OTHER FINANCING SOURCES (USES)	(105,179)	11,849	189,599	96,269
EXCESS REVENUES AND OTHER FINANCING SOURCES (EXPENDITURES AND OTHER USES)	107,854	69,014	(9,399)	167,469
Fund Balance, Beginning of Year	348,575	322,442	219,669	890,686
Prior Period Adjustment	-	-	(13,728)	(13,728)
Fund Balance, Beginning of Year, As Adjusted	348,575	322,442	205,941	876,958
FUND BALANCE, END OF YEAR	\$ 456,429	\$ 391,456	\$ 196,542	\$ 1,044,427

See accompanying notes to financial statements.

**GLADSTONE AREA SCHOOLS**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCE  
TO THE STATEMENT OF ACTIVITIES**

For the Year Ended June 30, 2008

Net change in fund balances - total governmental funds	\$ 167,469
The change in fund balances reported for governmental activities in the statement of activities is different because:	
Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the costs of those assets are allocated over their useful lives as depreciation expense. This is the amount by which depreciation expense (\$539,451) exceeds capital outlays (\$111,112) for the period.	(428,339)
Repayment of principal on debt is an expenditure in the governmental funds but reduces the debt liability in the statement of net assets.	1,030,309
Revenues in the statement of activities that provide current financial resources are not reported as revenues in the specific governmental funds.	(810)
In the statement of activities expenses for compensated absences and special termination benefits for early retirement are measured by the amounts earned during the year. In governmental funds, however, expenditures for these items are measured by the amount paid out during the year.	(87,665)
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized when the interest accrues, regardless of when it is due. The additional interest reported is a net result of these factors.	<u>24,491</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 705,455</u>

See accompanying notes to financial statements.

GLADSTONE AREA SCHOOLS

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2008

	Private- Purpose Trusts	Agency Funds
ASSETS:		
Cash and Equivalents	\$ 6,788	\$ 99,857
Accounts Receivable	15,700	-
Due from Other Funds	1,850	-
	<hr/>	<hr/>
TOTAL ASSETS	\$ 24,338	\$ 99,857
	<hr/>	<hr/>
LIABILITIES:		
Scholarships Payable	\$ 15,700	\$ -
Due to Student Groups	-	99,857
	<hr/>	<hr/>
TOTAL LIABILITIES	\$ 15,700	\$ 99,857
	<hr/>	<hr/>
NET ASSETS		
Reserved for Scholarships	\$ 8,117	
Unreserved	521	
	<hr/>	
TOTAL NET ASSETS	\$ 8,638	
	<hr/>	

See accompanying notes to financial statements.

GLADSTONE AREA SCHOOLS

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

For the year ended June 30, 2008

	Private- Purpose Trusts
ADDITIONS:	
Gifts and Contributions	\$ 19,186
Interest Earned	63
	<hr/>
TOTAL ADDITIONS	19,249
	<hr/>
DEDUCTIONS:	
Scholarships Awarded	16,800
Miscellaneous	862
	<hr/>
TOTAL DEDUCTIONS	17,662
	<hr/>
CHANGE IN NET ASSETS	1,587
Net Assets, Beginning of Year	<hr/> 7,051
NET ASSETS, END OF YEAR	<hr/> \$ 8,638

See accompanying notes to financial statements.

## GLADSTONE AREA SCHOOLS

### NOTES TO FINANCIAL STATEMENTS

June 30, 2008

#### NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Gladstone Area Schools (The School District) conform to accounting principles generally accepted in the United States of America as applicable to school districts. The following is a summary of the significant policies:

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. Certain of the significant items in the statement include the following:

- A Management's Discussion and Analysis section providing an analysis of the District's overall financial position and results of operations.
- Financial statements prepared using the full accrual method of accounting for all of the District's activities.
- Fund financial statements that focus on the major funds of the District.

The District has also implemented GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. The pronouncement defines revenue recognition for nonexchange transactions at the fund and governmental levels.

(1) Reporting Entity – In evaluating how to define the District, for financial reporting purposes, management has considered all potential component units as required under Government Accounting Standards Board Statement number 14, "The Financial Reporting Entity", as amended by GASB Statement number 39. Based upon the criteria outlined in this statement, the financial statements of the Gladstone Area Schools contain all the funds controlled by the District's Board of Education. There are no other entities that meet the criteria to be considered a blended component unit or a discretely presented component of the District, nor is the District a component unit of another entity.

(2) Basic Financial Statements – Government-Wide – The District's basic financial statements include both government-wide (reporting the District as a whole) and fund financial statements (reporting the District's major funds). The government-wide financial statements categorize primary activities as either governmental or business type. All of the District's activities are classified as governmental activities.

In the government-wide Statement of Net Assets, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts:

- Invested in capital assets, net of related debt – This category consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.



## GLADSTONE AREA SCHOOLS

### NOTES TO FINANCIAL STATEMENTS

June 30, 2008

#### NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- Restricted net assets – This category consists of net assets with constraints placed on the use of the assets either by (1) external groups such as creditors, grantors, contributors or laws or regulations of other governments; or (2) law through constitutional provisions of enabling legislation. There is \$449,356 of restricted net assets in the Statement of Net Assets due to the provisions of enabling legislation.
- Unrestricted net assets – All other net assets that do not meet the definition of the categories listed above.

The District first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the District's functions. The District's functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, fines, charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants. The net costs (by function) are normally covered by general revenue (property taxes, state and federal sources, interest income, and others).

The District does not allocate indirect costs. In creating the government-wide financial statements the District has eliminated interfund transactions.

The government-wide focus is on the sustainability of the School District as an entity and the change in the District's net assets resulting from the current year's activities.

(3) Basic Financial Statements – Fund Financial Statements – The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate self-balancing set of accounts that comprise its' assets, liabilities, fund balances, revenues and expenditures. Government resources are allocated and accounted for in the individual funds based upon the purposes for which they are to be spent and the means by which the spending activities are controlled. The various funds are grouped in the financial statements in this report into two broad fund categories and five generic fund types as follows:

#### Governmental Funds

General Fund - The General Fund is the general operating fund and, accordingly, it is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds - Special revenue funds are used to account for the activities of specific school service revenue sources such as the School Lunch Fund, Athletic and Bookstore Fund and Public Library Fund.

## GLADSTONE AREA SCHOOLS

### NOTES TO FINANCIAL STATEMENTS

June 30, 2008

#### NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital Project Funds - Capital project funds are used to account for financial resources to be used specifically for the acquisition, construction, or major repair of major capital facilities or other capital assets, including equipment. The Major Maintenance Fund and the Technology Fund are the capital project funds of the School District.

Debt Retirement Funds - Debt retirement funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

#### Fiduciary Funds

Trust and Agency Funds - Trust and Agency Funds are used to account for assets held by the school district in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. These include Private Purpose Trust Funds and Agency Funds.

- a. Private-Purpose Trust Funds – Private-Purpose trust funds are used to account for the receipts and expenditures of assets held under a trust agreement. The Private-Purpose trust funds maintained by the District are the Scholarship Fund and the Health Services Fund.
- b. Agency Funds - Agency funds are used to account for assets held by the District as trustee or agent for individuals, private organizations and other governmental units. The agency funds maintained by the District are the Middle School Activity, the High School Activity, the Vocational Activity Fund and the James T. Jones Activity Fund.

(4) Measurement Focus and Basis of Accounting – The basis of accounting refers to the point at which revenues and expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates the timing of the measurements made regardless of the measurement focus. The government-wide financial statements use the economic resources measurement focus.

- a. Accrual Basis – Governmental activity in the government-wide financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.
- b. Modified Accrual Basis – The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting revenues are recorded when the resource is both measurable and available. Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year-end. Expenditures are generally recognized when the related fund liability is incurred with certain exceptions, such as interest of general long-term debt, which is recognized when due.

(5) Investments – Investments are recorded at fair market value.

## GLADSTONE AREA SCHOOLS

### NOTES TO FINANCIAL STATEMENTS

June 30, 2008

#### NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(6) Inventory – The General Fund of the District utilizes the purchase method for recording the inventories of materials and supplies. Under the purchase method, inventories are recorded as expenditures when they are acquired, regardless of when they are used.

The School Lunch Fund utilizes the consumption method of recording the inventory of food and supplies held for consumption, and accordingly, the inventory is recorded as an expenditure when it is used. This inventory is valued at the lower of cost (first-in, first-out) or market.

(7) Capital Assets – The accounting and reporting treatment applied to capital assets depends on whether the assets are reported in the government-wide financial statements or the fund financial statements.

##### *Government-wide Statements*

In the government-wide financial statements fixed assets are capitalized. All fixed assets are valued at historical cost or estimated historical cost if actual cost is unavailable. Donated fixed assets are recorded at their estimated fair market value at the date of donation.

Depreciation on all exhaustible fixed assets is recorded as an unallocated expense in the Statement of Activities with accumulated depreciation being reflected in the Statement of Net Assets. Depreciation is provided for using the straight-line method over the estimated useful lives of the assets as follows:

Buildings and additions	50 years
Land improvements	15 - 20 years
Vehicles	8 years
Equipment	5 – 15 years

##### *Fund Financial Statements*

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

(8) Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

## GLADSTONE AREA SCHOOLS

### NOTES TO FINANCIAL STATEMENTS

June 30, 2008

#### NOTE B – CASH AND EQUIVALENTS

The composition of cash and equivalents as reported in the Statement of Net Assets and the Statement of Fiduciary Net Assets is presented below:

Financial statement presentation:	
Cash and Equivalents	\$ 2,147,625
Investments	<u>113,541</u>
 TOTAL	 <u><u>\$ 2,261,166</u></u>
 Composition of balances:	
Imprest Cash	\$ 837
Deposits:	
Checking Accounts	1,639,235
Savings Accounts	507,553
Investments	<u>113,541</u>
 TOTAL	 <u><u>\$ 2,261,166</u></u>

Cash and cash equivalents consist primarily of short-term investments with an original maturity of three months or less and are carried at cost, which approximates fair value.

Michigan statutes authorize the District to invest in bonds, other direct obligations and repurchase agreements of the United States, certificates of deposits, savings accounts, deposit accounts or receipts of a bank which is a member of the FDIC, commercial paper, bankers' acceptances of United States banks, obligations of the State of Michigan and its political subdivisions, external investment pools, and certain mutual funds.

Attorney General's Opinion No. 6168 states that public funds may not be deposited in financial institutions located in states other than Michigan.

The District's investments are with the Michigan Liquid Asset Fund (MILAF). This is a mutual fund that is not subject to risk categorization. These investments are recorded at estimated fair value, which is based on quoted market prices.

*Interest Rate Risk* . The District carries no significant interest rate risk as all of its holdings are in bank accounts or mutual funds with a high degree of liquidity. The District's policies therefore do not address this risk.



## GLADSTONE AREA SCHOOLS

### NOTES TO FINANCIAL STATEMENTS

June 30, 2008

#### NOTE B – CASH AND EQUIVALENTS (continued)

*Credit Risk.* State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations with a maximum maturity of 270 days. As of June 30, 2008, the District did not hold any commercial paper.

*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that in the event of a bank failure the District's deposits may not be returned. At June 30, 2008 the District held \$2,380,427 in checking and savings accounts. Of this amount \$2,079,950 was uninsured and uncollateralized.

*Concentration of Credit Risk.* The District has no significant concentration of credit risk due to fact that its deposits are with area banks or with the MILAF mutual fund. The District's policies therefore do not address this risk.

*Foreign Currency Risk.* The District has no foreign currency risk as it has no deposits or investments in foreign currency.

All deposits for the District are in accordance with statutory authority.

#### NOTE C – CAPITAL ASSETS

A summary of the changes in governmental capital assets is as follows:

	Balance June 30, 2007	Additions	Disposals	Balance June 30, 2008
Land (not being depreciated)	\$ 149,340	\$ -	\$ -	\$ 149,340
Land Improvements	553,969	-	-	553,969
Buildings and Improvements	20,032,368	18,792	-	20,051,160
Vehicles	1,043,442	67,858	-	1,111,300
Machinery and Equipment	794,615	24,462	-	819,077
Depreciable Assets	22,424,394	111,112	-	22,535,506
Total Assets	22,573,734	111,112	-	22,684,846
Accumulated Depreciation	(9,094,289)	(539,451)	-	(9,633,740)
Net Total	\$ 13,479,445	\$ (428,339)	\$ -	\$ 13,051,106

## GLADSTONE AREA SCHOOLS

### NOTES TO FINANCIAL STATEMENTS

June 30, 2008

#### **NOTE D - SCHOOL DISTRICT SCHOLARSHIP FUND**

On March 17, 1997, the Gladstone Area School District entered into an agreement to create a charitable scholarship endowment within the Community Foundation for Delta County. The purpose of the fund is to benefit the education and development of graduates of the Gladstone Area School District through scholarships for college or post-secondary education. These assets no longer appear in the financial statements of the Gladstone Area School District. All assets of the fund will be repaid to the School District upon termination of the Community Foundation. Remaining cash in the Gladstone Area School's Scholarship Fund will be used for various miscellaneous scholarships.

#### **NOTE E - ACCRUED FRINGE BENEFITS**

The District, as part of the various employment contracts with its personnel, allows for sick and personal days. It also allows the accumulation of compensation hours for its teachers when acting as a substitute teacher. Each employment contract specifies an accumulation policy for these days, as follows:

Sick Leave - The various employment contracts with District personnel stipulate four different methods of accumulating and paying for unused sick leave.

Teachers - Twelve days are allowed annually, accumulative to 160 days. Accumulated days are payable only upon retirement or death, and then only to teachers with 10 years employment. The amount payable is at a rate of one-half of the teacher's daily rate of pay at time of retirement or death, multiplied by the number of accumulated unused sick days up to a maximum of 135 days.

Non-Teaching Employees - One-half day per month is allowed with a maximum accumulation of 132 days. For employees hired before July 1, 1984, up to 120 accumulated days are payable in total at the employee's prevailing rate of pay upon retirement or death. Employees hired July 1, 1984 and thereafter are paid for one-half of their accumulated sick days (maximum accumulation of 120 days) multiplied by their prevailing rate of pay upon retirement or death. Employees hired after July 1, 2005 shall not accumulate any sick days.

Administrators - Fifteen days per year are allowed for all administrators, with a maximum accumulation of 165 days. Accumulated days are payable only upon retirement or death, and then only to administrators with 10 years employment. The amount payable is at a rate that varies from 55 percent to 60 percent of the administrator's daily rate of pay at retirement or death multiplied by the number of accumulated unused sick days up to a maximum of 125 days.

Superintendent - Fifteen days per year are allowed, accumulative to 170 days. Accumulated days are payable in total at 75% of the superintendent's actual rate of pay, upon retirement or death.

The total unused sick leave earned as of June 30, 2008 has been calculated to be \$2,574,346. When subject to maximum days payable the amount is \$2,411,966. The accrued liability of \$1,271,228 represents the amount expected to be paid upon retirement or death for employees who have vested.



## GLADSTONE AREA SCHOOLS

### NOTES TO FINANCIAL STATEMENTS

June 30, 2008

#### **NOTE E – ACCRUED FRINGE BENEFITS (continued)**

Personal Business Days - Teachers and administrators will be credited with three personal business days per school year, with an accumulation to a maximum of five days. Non-teaching employees will be credited with three personal days per school year.

A teacher may elect to either receive a reimbursement for unused personal days, up to a maximum of five days at the rate of a substitute teacher's daily salary, or to carry the personal days to the next year. Administrators add unused personal days to accumulated sick leave. Non-teaching employees may carry two personal days over to the next fiscal year.

The accrued liability for unused personal days as of June 30, 2008 amounted to \$53,604.

Compensation Hours – Teachers earn compensation hours when acting as a substitute teacher. The total compensation hours earned as of June 30, 2008 has been calculated to be \$7,492.

Early Retirement Incentive - During the year ended June 30, 2008, eligible employees were allowed to choose between two early retirement incentive plans. The current employment contracts with teachers and administrators allow the option of early retirement to those employees who meet state requirements for retirement. Qualified retirees shall receive an early retirement incentive of \$150 per month for a period of up to seven years. At June 30, 2008, 42 retirees were receiving, or eligible to begin receiving, this early retirement incentive. The total estimated early retirement incentive liability, under current employment contracts, as of June 30, 2008 amounted to \$205,200.

#### **NOTE F - DEFERRED REVENUE**

Deferred revenues are those where asset recognition criteria have been met but for which revenue recognition criteria have not been met. Deferred revenue represents unexpended funds received or receivable from state and federal project grants. Deferred revenue at June 30, 2008 consisted of the following:

General Fund:	
At Risk Grant	\$ 900
MIBSLI	686
Durant	36,058
2% Casino Revenue	22,852
Driver's Education	8,884
Subtotal	69,380
Hot Lunch Fund:	
Inventory	8,461
Total	<u>\$ 77,841</u>

**GLADSTONE AREA SCHOOLS**

**NOTES TO FINANCIAL STATEMENTS**

June 30, 2008

**NOTE G – SHORT-TERM DEBT**

The District's short-term debt activity, used solely for the purpose of operating cash flow, was as follows:

	Balance June 30, 2007	Additions	Repayments	Balance June 30, 2008
Michigan Municipal Bond Authority	<u>\$ 2,000,000</u>	<u>\$ 1,800,000</u>	<u>\$ 2,000,000</u>	<u>\$ 1,800,000</u>

**NOTE H – CHANGES IN GENERAL LONG-TERM DEBT**

The following is a summary of the changes in general long-term debt for the year ending June 30, 2008:

	Durant Bonds	General Obligation Bonds	Notes Payable	Accrued Fringe Benefits	Total
Balance, June 30, 2007	\$ 116,323	\$ 13,900,000	\$ 1,737,289	\$ 1,470,259	\$ 17,223,871
Additions	-	140,000	-	87,665	227,665
Retirements	-	(825,000)	(324,909)	(20,400)	(1,170,309)
Balance, June 30, 2008	<u>\$ 116,323</u>	<u>\$ 13,215,000</u>	<u>\$ 1,412,380</u>	<u>\$ 1,537,524</u>	<u>\$ 16,281,227</u>

At June 30, 2008 the School District's long-term debt consisted of the following:

Durant Bonds

Bonds payable, due in annual installments of principal and Interest at a rate of 4.76%. Payments are due annually on May 15<sup>th</sup> beginning in 2006 and continuing until 2013.

\$ 116,323

General Obligation Bonds

February 5, 2008 used to refund a portion of the 1998 Refunding Bonds due and payable May 1, 2009 through May 1, 2018, inclusive, May 1, 2023 and May 1, 2026. Principal payments are due in annual installments varying from \$90,000 to the final principal payment of \$370,000 due May 1, 2026. Interest is due semiannually with variable rates ranging from 4.00% to 4.25%.

\$ 6,965,000

**GLADSTONE AREA SCHOOLS**

**NOTES TO FINANCIAL STATEMENTS**

June 30, 2008

**NOTE H -- CHANGES IN GENERAL LONG-TERM DEBT (continued)**

November 18, 2004 issue used to refund a portion of the February 3, 1997 issue, due in annual installments varying from \$60,000 to \$390,000 with the final principal payment being due on May 1, 2026. Interest is due semiannually at variable rates ranging from 2.5% to 4.5%

6,250,000

TOTAL GENERAL OBLIGATION BONDS

\$ 13,215,000

Notes Payable

4/29/98, 10/29/98, 10/25/99, 10/25/00, 10/25/01, 10/25/02 and 10/24/03 borrowings from the Michigan Department of Treasury at various interest rates ranging between 5.125% and 2.875%. Payment schedule not determined.

1,412,380

TOTAL NOTES PAYABLE

\$ 1,412,380

The estimated debt service requirements for principal to maturity as of June 30, 2008, with the exception of the Michigan Department of Treasury note and accrued fringe benefits other than early retirement, is as follows:

Year Ending 6/30	Bonds Payable	Early Retirement Incentives	Principal Total	Interest Total
2009	775,964	57,900	833,864	531,777
2010	852,517	48,900	901,417	527,589
2011	797,032	35,100	832,132	475,971
2012	805,810	25,650	831,460	447,512
2013	760,000	17,550	777,550	416,831
2014-2018	3,710,000	20,100	3,730,100	1,630,131
2019-2023	3,570,000	-	3,570,000	883,923
2024-2026	2,060,000	-	2,060,000	178,058
TOTAL	<u>\$ 13,331,323</u>	<u>\$ 205,200</u>	<u>\$ 13,536,523</u>	<u>\$ 5,091,792</u>

## **GLADSTONE AREA SCHOOLS**

### **NOTES TO FINANCIAL STATEMENTS**

June 30, 2008

#### **NOTE H – CHANGES IN GENERAL LONG-TERM DEBT (continued)**

##### **Accrued Employee Benefits**

Accrued employee benefits included in general long-term debt is for the accumulated terminal leave built up by employees from unused sick leave, vacation days, personal days and early retirement incentive, as is further discussed in Note E. The accumulated employee benefits included in general long-term debt at June 30, 2008 was \$1,537,524.

The debt service requirements for accrued employee benefits (except for early retirement incentives) are dependent upon future employee retirements and terminations. Thus future payments are unknown at June 30, 2008.

The debt service requirements for the note payable to Michigan Department of Treasury is not listed above as this note will be repaid as funds become available in the Debt Retirement Fund. Funds will become available as the debt retirement tax levy begins to exceed the debt payment schedule. An interest payment of \$92,235 and a principal payment of \$303,316 occurred during the year ended June 30, 2008. The remainder of the debt repayment schedule remains uncertain.

#### **NOTE I - RESERVED FUND BALANCE**

Fund balance has been reserved in the general fund for the current portion of early retirement benefits in the amount of \$57,900.

#### **NOTE J – INTERFUND ACTIVITY**

During the year the District had interfund activity that was for operational purposes. The General Fund transferred \$145,757 to the Athletics & Bookstore Special Revenue Fund, \$1,882 to the Hot Lunch Special Revenue Fund, \$17,429 to the Major Maintenance Capital Projects Fund and \$17,429 to the Technology Capital Projects Fund during the year. For the government-wide financial statements this interfund activity has been eliminated.

#### **NOTE K - PROPERTY TAXES**

Property taxes levied attach as an enforceable lien on property. Taxes are levied on December 1, and payable by February 28 of the subsequent year. The School District tax is collected by the various local tax collecting units (townships, cities, etc.). Any real property taxes that are delinquent at March 1 are purchased by the Delta County Delinquent Tax Revolving Fund, thereby reducing the School District taxes receivable to only those personal property taxes which are uncollected and delinquent. The District tax rates are 18.00 mills per \$1,000 taxable value on non-homestead property for general operations and 8.56 mills per \$1,000 taxable value on both homestead and non-homestead property for debt retirement.

## GLADSTONE AREA SCHOOLS

### NOTES TO FINANCIAL STATEMENTS

June 30, 2008

#### NOTE L - RETIREMENT PLAN

Plan Description - The School District contributes to the Michigan Public School Employees Retirement System (MPERS), a cost-sharing, multiple-employer, statewide public employee retirement plan governed by the State of Michigan. The District's total annual payroll for the year ended June 30, 2008 was \$7,069,148 of which \$6,853,885 was eligible compensation under MPERS.

All non-student employees are eligible to participate in the MPERS. Benefits vest after 10 years of service. Employees under the Basic Plan may retire at age 55 with 30 years of credited service, or at age 60 with 10 or more years of service. A Member Investment Plan (MIP) member may retire at any age with 30 years of credited service or at age 60 with 5 years of service. Both Basic and MIP plan members may retire at age 55 with 15 years of service and receive reduced early retirement benefits. The System also provides survivor, death and disability benefits.

Benefits are paid monthly over the member's lifetime and are equal to 1.5% of the members' final average compensation multiplied by the member's years of credit service. The final average compensation period for Basic members is sixty consecutive months and for MIP members it is 36 consecutive months. Also under MPERS, retirees have the option of continuing health, dental and vision coverage, with a portion of the cost being borne by them.

Contributions Required and Made - The District is required by state statute to contribute 16.72% of all eligible employees' salaries to the System. Employees who are members of the MIP (membership is required for employees hired after December 31, 1989) are required by statute to contribute an additional 4% of their salary to the Plan. Total School District contributions to the System for the years ended June 30, 2008, 2007, and 2006 were \$1,115,522, \$1,155,695, and \$1,217,100, respectively, which were equal to the required contributions for each year.

MPERS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to MPERS at P.O. Box 30673, Lansing, MI 48909-8103, or by calling (517) 322-5103.

#### NOTE M - STATE FOUNDATION REVENUE

For the fiscal year ended June 30, 1995 the State of Michigan adopted a foundation grant approach which provides for a specific annual amount of revenue per student based on a statewide formula. In previous years, the state utilized a district power equalizing approach. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2008, the foundation allowance was based on 25 percent of pupil membership count taken in February of 2007 and 75 percent of pupil membership count taken in September of 2007.



## GLADSTONE AREA SCHOOLS

### NOTES TO FINANCIAL STATEMENTS

June 30, 2008

#### **NOTE M - STATE FOUNDATION REVENUE (continued)**

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes that may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period (currently the fiscal year) and is funded through payments from October through August. The local revenue is recognized as outlined in Note K which discusses property taxes.

#### **NOTE N - BUDGETS AND BUDGETARY ACCOUNTING**

The School District follows the procedures below in establishing the budgetary data reflected in the financial statements.

1. In June, the superintendent submits to the School Board proposed operating budgets for the fiscal year commencing the following July 1. Proposed budgets include projected expenditures and the means of financing them.
2. Numerous opportunities exist for public comment during the budget process, including at least two formal public hearings.
3. At the June School Board meeting, the budgets for the ensuing year are legally enacted through adoption by the Board and reference thereto in the Board minutes.
4. The general statute governing District budgetary activity is the State of Michigan Uniform Budgeting and Accounting Act.
5. The Gladstone School District adopts its annual budgets on a program basis. The program is defined in a formal budget structure and glossary of terms adopted by Board action. The program budget structure consists of five levels of detail as follows:

Resource allocation  
Major functional group  
Department  
Program  
Activity

At each level of detail, governmental operations are summarized into expenditure account groups. Funding sources are also identified and adopted at each level of detail. Budgetary control exists at the most detailed level adopted by the Board, i.e., department, program, or activity level.



## GLADSTONE AREA SCHOOLS

### NOTES TO FINANCIAL STATEMENTS

June 30, 2008

#### **NOTE N - BUDGETS AND BUDGETARY ACCOUNTING (continued)**

6. A detailed line item breakdown is prepared for each program, for the purpose of accounting control. Since each budget is adopted at a program level rather than the detailed line item level, transfers between line items are allowable without Board approval. Board approval is required for revision of any program budget.
7. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Budgeted amounts in the financial statements are as originally adopted or amended by the School Board. Any unexpended appropriations lapse at year-end.

#### **NOTE O – RISK MANAGEMENT**

The District is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The District participates in a distinct pool of educational institutions within the State of Michigan for self-insuring property and casualty. The pool is considered a public entity risk pool. The District pays annual premiums to the pool for the respective insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessments to make up the deficiency. The pool maintains reinsurance for claims in excess of \$500,000 for each occurrence with the overall maximum coverage being unlimited. The District has not been informed of any special assessments being required.

The District had no outstanding claims that exceeded the plan's limits and there has been no significant reduction in insurance coverage over the past three years. The District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance.

#### **NOTE P - DURANT BONDS AND STATE REVENUE SOURCE**

The Gladstone Area Schools are to receive a total of \$394,007 as a result of the Durant lawsuit settlement. The Gladstone Area Schools received \$197,004 from Durant bond proceeds during fiscal year 1999 and will also receive \$197,004 over a ten-year period from 2000 to 2009. During fiscal year 1999, the Gladstone Area Schools received the entire \$197,004 Durant bond proceeds and the first of the payments of the settlement payments in the amount of \$19,700. During fiscal years 2000 – 2006 the District received each of the payments of \$19,700. As of June 30, 2008, \$39,400 is yet to be received from the State of Michigan.

The Durant bonds are a legal obligation of the school district and are recorded in these financial statements as long-term debt. The annual State of Michigan appropriation is the only revenue source for making the debt service payment on the bonds. If the state legislature fails to appropriate the funds, the District is under no obligation for payment.

## **GLADSTONE AREA SCHOOLS**

### **NOTES TO FINANCIAL STATEMENTS**

June 30, 2008

#### **NOTE Q - OTHER COMMITMENTS AND CONTINGENCIES**

The retiree health, dental and vision coverage under the Michigan Public School Employees Retirement System (MPERS - see Note L) is currently funded on a pay-as-you-go basis. This funding policy is being challenged in the state courts. The outcome of this litigation and its potential effect on the School District are uncertain as of the date of these financial statements.

The District has received significant assistance from state and federal agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with the terms and conditions specified in the grant agreements and are subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the District. However, in the opinion of management, any disallowed claims will not have a material effect on any of the financial statements of the District as of June 30, 2008.

#### **NOTE R – PRIOR PERIOD ADJUSTMENT**

School Lunch Fund – A prior period adjustment in the amount of \$13,728 was made to account for receivables recorded for U.S.D.A. entitlement of commodities remaining as of June 30, 2007, which were determined to be uncollectible in fiscal year 2008.

**REQUIRED SUPPLEMENTAL INFORMATION**

**GLADSTONE AREA SCHOOLS**

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND**

For the year ended June 30, 2008

	Budgeted Amounts			Variance
	Original	Final	Actual	Favorable (Unfavorable)
REVENUES:				
Local Sources:				
Property Tax Levy	\$ 891,785	\$ 786,224	\$ 780,355	\$ (5,869)
Preschool Fees	32,227	23,750	23,710	(40)
Drivers Education Fees	27,093	27,093	29,394	2,301
Rental of School Facilities	4,460	6,460	6,149	(311)
Medicaid Fee For Service	9,500	14,734	23,341	8,607
2% Casino Revenue	25,272	30,272	9,420	(20,852)
ISD Mini Grant	-	7,866	7,180	(686)
Miscellaneous	8,000	16,750	27,089	10,339
Total Local Sources	998,337	913,149	906,638	(6,511)
State Sources:				
State Aid - Foundation Grant	10,736,163	10,486,895	10,505,932	19,037
Other State Aid:				
Special Education	52,544	431,677	442,043	10,366
Equity Payment	37,274	24,650	24,647	(3)
Vocational Education	5,000	11,467	1,579	(9,888)
Durant Funds	69,941	54,693	18,635	(36,058)
At Risk Grant	225,212	201,312	204,702	3,390
Total State Sources	11,126,134	11,210,694	11,197,538	(13,156)
Federal Sources:				
Title I	180,359	180,359	195,650	15,291
Title V	337	337	337	-
Title IIA	83,295	83,295	61,925	(21,370)
Title IID	1,590	1,590	1,590	-
Indian Education	32,420	32,420	32,420	-
Service Provider Self Review Grant	-	-	4,500	4,500
Drug Free Grant	2,422	2,422	2,422	-
Total Federal Sources	300,423	300,423	298,844	(1,579)
TOTAL REVENUES	12,424,894	12,424,266	12,403,020	(21,246)
EXPENDITURES:				
Instruction:				
Basic Programs:				
Elementary:				
Salaries:				
Teachers	\$ 1,590,249	\$ 1,590,249	\$ 1,621,863	\$ (31,614)
Schedule B	684	684	702	(18)
Substitutes	36,000	36,000	30,295	5,705
Severance Pay	17,478	16,132	48,394	(32,262)
Early Retirement	12,900	29,700	29,700	-
2007 VSP	19,123	30,000	30,000	-
FICA	126,923	126,923	127,790	(867)
Health Insurance	472,238	472,238	467,563	4,675
Insurance Opt-out	1,800	3,360	3,840	(480)
Retirement	276,091	276,091	277,620	(1,529)
Repair & Maintenance	22,000	32,014	33,276	(1,262)
Travel	550	550	1,972	(1,422)
Unemployment	-	-	3,854	(3,854)
Teaching Supplies	50,746	53,746	49,765	3,981
Textbooks	431	466	480	(14)
Workers' Compensation	3,963	4,665	4,665	-
Other Supplies	16,202	16,849	16,888	(39)
Total Elementary	2,647,378	2,689,667	2,748,667	(59,000)

GLADSTONE AREA SCHOOLS

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND**

For the year ended June 30, 2008

	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final		
Middle School:				
Salaries:				
Teachers	872,934	886,829	863,173	23,656
Schedule B	12,225	12,225	4,388	7,837
Substitutes	13,000	13,000	12,669	331
Severance Pay	6,554	11,075	-	11,075
Early Retirement	10,800	15,000	20,000	(5,000)
2007 VSP	-	5,000	11,326	(6,326)
FICA	70,129	70,129	69,149	980
Health Insurance	229,813	229,813	216,289	13,524
Insurance Opt-out	1,200	1,500	1,760	(260)
Retirement	152,418	152,418	146,821	5,597
Other Supplies	3,600	3,600	3,536	64
Repair & Maintenance	7,500	9,200	9,398	(198)
Travel	809	809	69	740
Unemployment	3,000	3,000	4,082	(1,082)
Workers' Compensation	2,769	3,259	3,259	-
Teaching Supplies	14,863	17,863	17,223	640
Textbooks	7,823	7,823	7,827	(4)
Total Middle School	1,409,437	1,442,543	1,390,969	51,574
Secondary:				
Salaries:				
Teachers	1,301,080	1,301,080	1,332,172	(31,092)
Schedule B	29,813	29,813	27,316	2,497
Substitutes	27,000	27,000	19,316	7,684
Severance Pay	23,070	71	212	(141)
Early Retirement	9,900	14,100	14,100	-
2007 VSP	-	5,000	5,000	-
FICA	106,768	106,768	106,307	461
Health Insurance	346,475	346,475	346,693	(218)
Insurance Opt-out	4,800	4,800	5,600	(800)
Retirement	230,434	230,434	229,434	1,000
Repair & Maintenance	15,032	17,090	16,582	508
Travel	2,997	2,997	1,618	1,379
Unemployment	-	-	(3,547)	3,547
Workers' Compensation	3,132	3,687	3,687	-
Contracted Services	10,000	20,481	22,830	(2,349)
Teaching Supplies	37,066	39,066	36,022	3,044
Textbooks	1,732	1,732	1,732	-
Other Supplies	4,138	2,138	1,024	1,114
Total Secondary	2,153,437	2,152,732	2,166,098	(13,366)
Pre-School:				
Salaries:				
Teachers	17,000	17,000	16,346	654
Aides	8,000	7,000	6,747	253
Substitutes	300	300	21	279
Early Retirement	300	300	300	-
FICA	1,958	1,882	1,791	91
Health Insurance	-	129	129	-
Retirement	4,293	4,293	3,900	393
Workers' Compensation	75	88	88	-
Teaching Supplies	300	300	242	58
Total Pre-School	32,226	31,292	29,564	1,728
Driver Training:				
Salaries	16,000	16,000	9,944	6,056
FICA	1,224	1,224	761	463
Retirement	2,715	2,715	1,029	1,686
Travel	100	838	768	70
Total Driver Training	20,039	20,777	12,502	8,275
Total Instruction - Basic Programs	6,262,517	6,337,011	6,347,800	(10,789)

GLADSTONE AREA SCHOOLS

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND**

For the year ended June 30, 2008

	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final		
Added Needs:				
Special Education:				
Salaries:				
Teachers	476,401	476,401	477,256	(855)
Aides	163,781	163,781	155,864	7,917
Substitutes	21,750	15,750	4,874	10,876
Substitute Aides	-	-	9,830	(9,830)
Early Retirement	1,800	1,800	1,800	-
FICA	51,296	51,296	50,025	1,271
Health Insurance	245,070	245,070	244,114	956
Insurance Opt-out	6,800	4,300	4,300	-
Retirement	112,330	112,330	108,340	3,990
Travel	905	905	113	792
Workers' Compensation	2,272	2,674	2,674	-
Purchased Services	10,000	6,000	6,741	(741)
Teaching Supplies	6,505	6,505	5,039	1,466
Total Special Education	1,098,910	1,086,812	1,070,970	15,842
Title II:				
Salaries	36,400	36,400	36,400	-
FICA	2,785	2,785	2,785	-
Retirement	6,177	6,177	6,115	62
Health Insurance	16,604	16,604	16,508	96
Travel	15,780	15,780	-	15,780
Workers' Compensation	100	118	118	-
Technology	1,590	1,590	1,590	-
Total Title II	79,436	79,454	63,516	15,938
Mini Grants:				
Durant Funds	69,941	62,559	-	62,559
Voc Ed Added Cost	5,000	5,000	1,579	3,421
At Risk Grant:				
Salaries	20,139	20,139	19,931	208
Health Insurance	6,295	6,295	6,405	(110)
Insurance Opt-out	3,000	3,000	2,940	60
Retirement	3,416	3,416	3,270	146
FICA	1,770	1,770	1,750	20
Alternative Ed Students	-	-	88,645	(88,645)
Accelerated Reader	2,000	2,000	2,000	-
Workers' Compensation	79	93	93	-
MII MIBSLI	-	-	7,180	(7,180)
Title V	337	337	-	337
Drug Free Grant	2,422	2,422	-	2,422
Total Mini Grants	114,399	107,031	133,793	(26,762)
Title I:				
Salaries				
Teachers	26,560	26,560	31,548	(4,988)
Aides	79,036	79,036	88,609	(9,573)
Substitute Aides	1,000	1,000	-	1,000
FICA	8,919	8,919	9,957	(1,038)
Health Insurance	22,751	22,751	23,027	(276)
Insurance Opt-out	10,000	10,000	10,000	-
Retirement	18,089	18,089	19,909	(1,820)
Audit Services	-	-	600	(600)
Teaching Family Home	11,192	11,192	11,192	-
Workers' Compensation	458	539	539	-
Teaching Supplies	530	530	269	261
Total Title I	178,535	178,616	195,650	(17,034)



**GLADSTONE AREA SCHOOLS**

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND**

For the year ended June 30, 2008

	Budgeted Amounts			Variance
	Original	Final	Actual	Favorable (Unfavorable)
Indian Education:				
Salaries:				
Coordinator	21,020	21,020	21,020	-
FICA	1,608	1,608	1,608	-
Retirement	3,567	3,567	3,567	-
Audit Services	-	-	250	(250)
Travel	875	875	875	-
Workers' Compensation	102	120	102	18
Other Supplies	4,573	4,573	3,917	656
Total Indian Education	31,745	31,763	31,339	424
Total Instruction - Added Needs	1,503,025	1,483,676	1,495,268	(11,592)
Total Instruction	7,765,542	7,820,687	7,843,068	(22,381)
Support Services:				
Pupil:				
Guidance:				
Salaries:				
Counselors	38,532	38,532	38,532	-
Secretary	26,491	26,491	25,942	549
Substitutes	850	-	-	-
Early Retirement	1,800	1,800	1,800	-
FICA	5,177	5,177	5,070	107
Health Insurance	29,193	29,193	29,318	(125)
Retirement	11,176	11,176	10,849	327
Workers' Compensation	213	251	251	-
Travel	540	540	-	540
Total Guidance	113,972	113,160	111,762	1,398
Health:				
Salaries	47,310	47,310	47,309	1
FICA	3,620	3,620	3,619	1
Health Insurance	16,790	16,790	16,807	(17)
Retirement	8,030	8,030	7,958	72
Workers' Compensation	1,595	1,875	1,875	-
Travel	1,500	1,500	317	1,183
Other Supplies	1,500	1,500	329	1,171
Total Health	80,345	80,625	78,214	2,411
Speech, Pathology & Audiology:				
Salaries	88,662	88,662	88,663	(1)
FICA	6,783	6,783	6,782	1
Health Insurance	20,469	20,469	20,278	191
Retirement	15,046	15,046	14,894	152
Travel	577	577	-	577
Workers' Compensation	197	232	232	-
Teaching Supplies	810	810	287	523
Total Speech, Pathology & Audiology	132,544	132,579	131,136	1,443
Other Pupil Services:				
FICA	123	14	77	(63)
Retirement	272	31	169	(138)
Homebound Services	1,605	221	1,045	(824)
Total Other Pupil Services	2,000	266	1,291	(1,025)

GLADSTONE AREA SCHOOLS

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND**

For the year ended June 30, 2008

	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final		
Teacher Consultant:				
Salaries	61,777	61,777	62,452	(675)
FICA	4,726	4,726	4,778	(52)
Health Insurance	16,604	16,604	16,508	96
Retirement	10,484	10,484	10,392	92
Workers' Compensation	141	166	166	-
Total Teacher Consultant	93,732	93,757	94,296	(539)
Total Support Services - Pupil	422,593	420,387	416,699	3,688
Instructional Staff:				
Library:				
Salaries:				
Librarian	55,865	55,865	55,865	-
Clerks	83,947	83,947	77,929	6,018
Substitutes	2,250	2,250	1,031	1,219
Early Retirement	2,138	2,138	2,138	-
Severance Pay	12,625	12,625	-	12,625
FICA	11,700	11,700	10,827	873
Health Insurance	36,184	46,748	47,118	(370)
Insurance Opt-out	8,750	4,550	4,307	243
Retirement	24,108	24,108	22,331	1,777
Purchased Services	191	191	856	(665)
Books	8,275	8,275	8,283	(8)
Periodicals	2,529	2,529	2,382	147
Other Supplies	2,812	2,812	2,811	1
Audio Visual Supplies	1,986	1,986	1,762	224
Multimedia Supplies	2,052	2,052	2,481	(429)
Workers' Compensation	525	619	619	-
Travel	500	500	472	28
Maintenance	3,706	3,706	3,706	-
Total Library	260,143	266,601	244,918	21,683
2% Casino Funds:				
Salaries:				
Aides	4,000	4,000	3,242	758
FICA	306	306	248	58
Retirement	679	679	517	162
Travel	2,000	2,000	121	1,879
Purchased Services	2,701	2,701	129	2,572
Other Supplies	15,586	20,586	5,163	15,423
Total 2% Casino Funds	25,272	30,272	9,420	20,852
Total Support Services - Instructional Staff	285,415	296,873	254,338	42,535
General Administration:				
Board of Education:				
Purchased Services	12,000	9,000	11,539	(2,539)
Legal Services	25,000	15,000	12,108	2,892
Audit Services	11,850	11,000	10,150	850
Travel	2,430	430	-	430
Advertising:				
Board	3,500	2,000	2,125	(125)
Elections	500	500	-	500
Election Supplies	1,350	1,350	2,225	(875)
Dues & Fees	5,500	5,500	4,184	1,316
Miscellaneous	2,430	2,430	1,715	715
Total Board of Education	64,560	47,210	44,046	3,164

GLADSTONE AREA SCHOOLS

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND**

For the year ended June 30, 2008

	Budgeted Amounts			Variance
	Original	Final	Actual	Favorable (Unfavorable)
Executive Administration:				
Salaries:				
Superintendent	96,820	96,820	96,820	-
Secretary	37,335	40,962	42,954	(1,992)
Substitute Secretary	200	200	-	200
Early Retirement	1,800	1,800	1,800	-
FICA	10,416	10,556	10,833	(277)
Health Insurance	28,402	20,658	22,170	(1,512)
Retirement	22,800	23,037	23,343	(306)
Office Supplies	1,510	2,010	1,930	80
Board Paid Annuity	6,190	6,190	6,190	-
Workers' Compensation	376	443	443	-
Dues & Fees	1,800	1,200	1,165	35
Travel	5,120	2,620	2,467	153
Miscellaneous	620	370	314	56
Total Executive Administration	213,389	206,866	210,429	(3,563)
Total Support Services - General Administration	277,949	254,076	254,475	(399)
School Administration:				
Office of the Principals:				
Salaries:				
Building Principals	294,249	294,249	299,954	(5,705)
Assistant Principals	110,813	110,813	110,813	-
Elementary Secretary	59,430	59,430	57,381	2,049
Secondary Secretary	55,550	55,550	55,527	23
Substitute Secretaries	3,575	5,575	4,183	1,392
Early Retirement	5,400	5,400	5,400	-
FICA	35,989	35,989	36,354	(365)
Health Insurance	122,744	122,744	121,921	823
Insurance Opt-out	1,800	1,800	2,100	(300)
Retirement	78,612	78,612	78,713	(101)
Purchased Services	25,192	25,192	26,387	(1,195)
Office Supplies	1,159	1,159	349	810
Workers' Compensation	1,498	1,763	1,763	-
Dues & Fees	4,848	4,848	1,821	3,027
Travel	2,296	2,296	1,410	886
Other Supplies	1,093	1,093	551	542
Total Office of the Principals	804,248	806,513	804,627	1,886
Other School Administration:				
Director	69,831	69,831	69,831	-
FICA	5,342	5,342	5,347	(5)
Health Insurance	17,690	17,690	17,667	23
Retirement	11,850	11,850	11,781	69
Technology Supplies	17,752	14,252	15,105	(853)
Workers' Compensation	156	184	184	-
Novell Licenses	4,350	3,220	3,220	-
Travel	745	998	464	534
Telephone Maintenance	1,000	1,000	180	820
Contracted Services	54,800	54,800	54,682	118
Other Supplies	7,829	5,829	5,133	696
Total Other School Administration	191,345	184,996	183,594	1,402
Total Support Services - School Administration	995,593	991,509	988,221	3,288

**GLADSTONE AREA SCHOOLS**

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND**

For the year ended June 30, 2008

	Budgeted Amounts			Variance
	Original	Final	Actual	Favorable (Unfavorable)
Business:				
Fiscal Services:				
Salaries:				
Business Manager	69,831	75,713	75,644	69
Assistant	42,265	21,022	21,022	-
Severance Pay	12,351	-	-	-
FICA	8,575	7,400	7,400	-
Health Insurance	30,280	22,091	23,137	(1,046)
Retirement	19,023	16,174	16,062	112
Purchased Services	6,298	26,530	33,486	(6,956)
Repair & Maintenance	1,000	1,070	1,003	67
Office Supplies	1,800	1,800	1,767	33
Unemployment Compensation	-	9,412	11,584	(2,172)
Workers' Compensation	521	613	613	-
Dues & Fees	167	273	273	-
Travel	900	1,300	1,088	212
Other Supplies	1,800	1,800	2,116	(316)
Total Fiscal Services	194,811	185,198	195,195	(9,997)
Other Business Services:				
Severance Pay	-	-	(14,637)	14,637
Other Insurance	3,358	3,358	3,292	66
Taxes Written Off	10,000	35,000	31,342	3,658
Total Other Business Services	13,358	38,358	19,997	18,361
Total Support Services - Business	208,169	223,556	215,192	8,364
Operation & Maintenance:				
Operation & Maintenance of Plant:				
Salaries:				
Building & Grounds Supervisor	47,484	47,484	47,467	17
Custodians	322,129	326,129	326,438	(309)
Laborers	15,554	15,554	21,348	(5,794)
Substitute Custodians	14,900	9,500	8,785	715
Overtime Custodians	800	800	-	800
Severance Pay	-	(14,637)	-	(14,637)
FICA	32,388	32,388	33,483	(1,095)
Health Insurance	109,074	98,674	97,680	994
Insurance Opt-out	22,000	25,000	25,923	(923)
Retirement	68,147	68,147	68,325	(178)
Early Retirement	4,500	5,250	5,250	-
Postage & Mailing	9,925	9,925	9,219	706
Telephone	31,300	36,300	25,426	10,874
Rental	5,500	3,434	3,654	(220)
Natural Gas	210,500	210,500	198,095	12,405
Electricity	145,225	142,225	143,690	(1,465)
Waste & Trash Removal	10,100	12,600	10,445	2,155
Water & Sewage	18,400	20,900	20,496	404
Insurance - Vehicles	527	527	504	23
Insurance-Property & Liability	32,704	30,017	30,017	-
Repair & Maintenance	54,500	43,200	54,761	(11,561)
Snow Plowing	16,500	22,509	22,509	-
Gas, Oil & Grease	1,500	1,500	2,388	(888)
Custodial Supplies	28,800	28,200	27,368	832
Maintenance Supplies	24,050	21,050	27,177	(6,127)
Workers' Compensation	11,579	13,630	13,630	-
Travel	250	400	324	76
Small Tools	900	900	915	(15)
Total Support Services - Operation & Maintenance	1,239,236	1,212,106	1,225,317	(13,211)

**GLADSTONE AREA SCHOOLS**

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND**

For the year ended June 30, 2008

	Budgeted Amounts			Variance
	Original	Final	Actual	Favorable (Unfavorable)
Pupil Transportation:				
Salaries:				
Director	48,000	44,701	44,701	-
Mechanic	32,336	32,336	31,415	921
Drivers	212,239	212,239	216,491	(4,252)
Substitutes	9,000	9,000	9,042	(42)
Early Retirement	6,300	6,300	6,300	-
FICA	22,022	22,022	22,431	(409)
Health Insurance	52,966	56,366	56,606	(240)
Insurance Opt-out	28,000	30,000	29,951	49
Retirement	43,032	43,032	41,194	1,838
Workers' Compensation	7,216	8,494	8,494	-
Purchased Services	14,000	14,000	13,436	564
Other Supplies	270	270	110	160
Insurance - Vehicles	11,163	11,163	11,063	100
Repair & Maintenance	7,500	3,700	3,296	404
Gas, Oil & Grease	73,000	83,200	79,520	3,680
Towing	1,000	250	250	-
Tires, Tubes & Batteries	5,000	500	-	500
Vehicle Repair Parts	24,964	34,964	36,825	(1,861)
Travel	189	189	25	164
Total Support Services - Pupil Transportation	598,197	612,726	611,150	1,576
Activities Office:				
Salaries:				
Director	46,102	46,102	46,102	-
Secretary	27,273	27,273	27,084	189
Substitutes	300	300	-	300
FICA	5,636	5,636	5,599	37
Health Insurance	29,381	29,381	29,617	(236)
Retirement	12,502	12,502	12,271	231
Repair and Maintenance	650	650	666	(16)
Office Supplies	1,093	1,093	1,083	10
Dues & Fees	950	950	1,075	(125)
Other Supplies	40	40	28	12
Total Activities Office	123,927	123,927	123,525	402
School Improvement:				
Staff/Personnel Services:				
Other Supplies	8,000	3,000	2,636	364
Outgoing Transfers:				
ISD Contracted Services	69,096	78,503	77,210	1,293
Alternative Ed Students	107,536	93,652	-	93,652
ISD - DDE	5,450	5,450	-	5,450
ISD Special Education	68,750	23,750	22,100	1,650
Total Outgoing Transfers	250,832	201,355	99,310	102,045
Capital Outlay:				
Pupil Transportation	67,858	67,858	67,858	-
Debt Service:				
Principal Retirement	21,593	21,593	21,593	-
Interest and Fiscal Charges	66,618	66,618	66,605	13
Total Debt Service	88,211	88,211	88,198	13
Total Support Services	4,565,980	4,495,584	4,346,919	148,665
TOTAL EXPENDITURES	12,331,522	12,316,271	12,189,987	126,284
EXCESS REVENUES (EXPENDITURES)	93,372	107,995	213,033	105,038

GLADSTONE AREA SCHOOLS

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND**

For the year ended June 30, 2008

	Budgeted Amounts		Actual	Variance Favorable (Unfavorable)
	Original	Final		
OTHER FINANCING SOURCES (USES);				
Interest Earned	80,000	77,500	77,318	(182)
Operating Transfers Out	(215,876)	(181,816)	(182,497)	(681)
TOTAL OTHER FINANCING SOURCES (USES)	(135,876)	(104,316)	(105,179)	(863)
EXCESS REVENUES AND OTHER FINANCING SOURCES (EXPENDITURES AND OTHER USES)	(42,504)	3,679	107,854	104,175
Fund Balance, Beginning of Year	348,575	348,575	348,575	-
FUND BALANCE, END OF YEAR	<u>\$ 306,071</u>	<u>\$ 352,254</u>	<u>\$ 456,429</u>	<u>\$ 104,175</u>



GLADSTONE AREA SCHOOLS

BUDGETARY COMPARISON SCHEDULE  
DEBT SERVICE FUND

For the year ended June 30, 2008

	Budgeted Amounts			Variance
	Original	Final	Actual	Favorable (Unfavorable)
REVENUES:				
Local Sources:				
Property Tax Levy	\$ 1,736,854	\$ 1,736,854	\$ 1,773,071	\$ 36,217
Miscellaneous revenue	-	-	4,633	4,633
TOTAL REVENUES	\$ 1,736,854	\$ 1,736,854	\$ 1,777,704	\$ 40,850
EXPENDITURES:				
Debt Service:				
Principal	1,777,122 }	1,777,122 }	1,128,316 }	
Interest and Fiscal Charges			592,223 }	56,583
TOTAL EXPENDITURES	1,777,122	1,777,122	1,720,539	56,583
EXCESS REVENUES (EXPENDITURES)	(40,268)	(40,268)	57,165	97,433
OTHER FINANCING SOURCES (USES):				
Interest Eamed	10,000	10,000	11,849	1,849
NET CHANGE IN FUND BALANCES	(30,268)	(30,268)	69,014	99,282
Fund Balance, Beginning of Year	322,442	322,442	322,442	-
FUND BALANCE, END OF YEAR	\$ 292,174	\$ 292,174	\$ 391,456	\$ 99,282

## **OTHER SUPPLEMENTAL INFORMATION**

GLADSTONE AREA SCHOOLS

COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS

June 30, 2008

	<u>Nonmajor Special Revenue Funds</u>			<u>Nonmajor Capital Project Funds</u>		Total Nonmajor Governmental Funds
	<u>School Lunch</u>	<u>Athletic and Bookstore</u>	<u>Public Library</u>	<u>Technology</u>	<u>Major Maintenance</u>	
ASSETS:						
Cash and Equivalents	\$ 176,596	\$ 7,252	\$ 107,275	\$ -	\$ -	\$ 291,123
Investments	-	-	-	13,475	100,066	113,541
Accounts Receivable	10,092	-	1,594	-	-	11,686
Due from Other Funds	-	-	-	17,429	17,429	34,858
Inventory	10,367	-	-	-	-	10,367
<b>TOTAL ASSETS</b>	<b>\$ 197,055</b>	<b>\$ 7,252</b>	<b>\$ 108,869</b>	<b>\$ 30,904</b>	<b>\$ 117,495</b>	<b>\$ 461,575</b>
LIABILITIES:						
Accounts Payable	\$ 6,092	\$ 446	\$ 773	\$ -	\$ -	\$ 7,311
Due to Other Funds	176,217	6,806	57,198	-	-	240,221
Deferred Revenue	8,461	-	-	-	-	8,461
Accrued Employee Benefits	6,244	-	1,050	-	-	7,294
Accrued Payroll	41	-	1,705	-	-	1,746
<b>TOTAL LIABILITIES</b>	<b>197,055</b>	<b>7,252</b>	<b>60,726</b>	<b>-</b>	<b>-</b>	<b>265,033</b>
FUND BALANCES						
Reserved:						
Reserved for Inventory	10,367	-	-	-	-	10,367
Unreserved:						
Undesignated	(10,367)	-	48,143	30,904	117,495	186,175
<b>TOTAL FUND BALANCES</b>	<b>-</b>	<b>-</b>	<b>48,143</b>	<b>30,904</b>	<b>117,495</b>	<b>196,542</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 197,055</b>	<b>\$ 7,252</b>	<b>\$ 108,869</b>	<b>\$ 30,904</b>	<b>\$ 117,495</b>	<b>\$ 461,575</b>

See accompanying notes to financial statements.

GLADSTONE AREA SCHOOLS

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
NONMAJOR GOVERNMENTAL FUNDS

For the year ended June 30, 2008

	<u>Nonmajor Special Revenue Funds</u>			<u>Nonmajor Capital Project Funds</u>		Total Nonmajor Governmental Funds
	<u>School Lunch</u>	<u>Athletic and Bookstore</u>	<u>Public Library</u>	<u>Technology</u>	<u>Major Maintenance</u>	
REVENUES:						
Local Sources	\$ 224,835	\$ 40,658	\$ 116,448	\$ -	\$ -	\$ 381,941
State Sources	21,421	-	4,154	-	-	25,575
Federal Sources	215,971	-	-	-	-	215,971
Other	6,680	-	-	-	-	6,680
<b>TOTAL REVENUES</b>	<b>468,907</b>	<b>40,658</b>	<b>120,602</b>	<b>-</b>	<b>-</b>	<b>630,167</b>
EXPENDITURES:						
Support Services - Pupil:						
Food Services	499,143	-	-	-	-	499,143
Athletics & Bookstore	-	189,329	-	-	-	189,329
<b>Total Support Services - Pupil</b>	<b>499,143</b>	<b>189,329</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>688,472</b>
Community Services:						
Library	-	-	113,067	-	-	113,067
Capital Outlay	22,584	-	5,042	-	-	27,626
<b>TOTAL EXPENDITURES</b>	<b>521,727</b>	<b>189,329</b>	<b>118,109</b>	<b>-</b>	<b>-</b>	<b>829,165</b>
<b>EXCESS REVENUES (EXPENDITURES)</b>	<b>(52,820)</b>	<b>(148,671)</b>	<b>2,493</b>	<b>-</b>	<b>-</b>	<b>(198,998)</b>
OTHER FINANCING SOURCES:						
Interest Earned	1,649	225	711	536	3,981	7,102
Operating Transfers In	1,882	145,757	-	17,429	17,429	182,497
<b>TOTAL OTHER FINANCING SOURCES</b>	<b>3,531</b>	<b>145,982</b>	<b>711</b>	<b>17,965</b>	<b>21,410</b>	<b>189,599</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(49,289)</b>	<b>(2,689)</b>	<b>3,204</b>	<b>17,965</b>	<b>21,410</b>	<b>(9,399)</b>
Fund Balances, Beginning of Year	63,017	2,689	44,939	12,939	96,085	219,669
Prior Period Adjustment	(13,728)	-	-	-	-	(13,728)
Fund Balances, Beginning of Year, As Adjusted	49,289	2,689	44,939	12,939	96,085	205,941
<b>FUND BALANCES, END OF YEAR</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 48,143</b>	<b>\$ 30,904</b>	<b>\$ 117,495</b>	<b>\$ 196,542</b>

See accompanying notes to financial statements.

GLADSTONE AREA SCHOOLS

COMBINING STATEMENT OF NET ASSETS  
PRIVATE PURPOSE TRUSTS

June 30, 2008

	Health Services	Scholarship	Totals
ASSETS:			
Cash and Equivalents	\$ 521	\$ 6,267	\$ 6,788
Accounts Receivable	-	15,700	15,700
Due from Other Funds	-	1,850	1,850
TOTAL ASSETS	<u>\$ 521</u>	<u>\$ 23,817</u>	<u>\$ 24,338</u>
LIABILITIES:			
Scholarships Payable	<u>\$ -</u>	<u>\$ 15,700</u>	<u>\$ 15,700</u>
NET ASSETS:			
Reserved for Scholarships	\$ -	\$ 8,117	\$ 8,117
Unreserved	521	-	521
TOTAL NET ASSETS	<u>\$ 521</u>	<u>\$ 8,117</u>	<u>\$ 8,638</u>

See accompanying notes to financial statements.

GLADSTONE AREA SCHOOLS

**COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
PRIVATE PURPOSE TRUSTS**

For the year ended June 30, 2008

	Health Services	Scholarship	Totals
ADDITIONS:			
Gifts and Contributions	\$ 836	\$ 18,350	\$ 19,186
Interest Earned	-	63	63
TOTAL ADDITIONS	836	18,413	19,249
DEDUCTIONS:			
Scholarships Awarded	-	16,800	16,800
Miscellaneous	862	-	862
TOTAL DEDUCTIONS	862	16,800	17,662
CHANGE IN NET ASSETS	(26)	1,613	1,587
Net Assets, Beginning of Year	547	6,504	7,051
NET ASSETS, END OF YEAR	<u>\$ 521</u>	<u>\$ 8,117</u>	<u>\$ 8,638</u>

See accompanying notes to financial statements.



GLADSTONE AREA SCHOOLS

**COMBINING STATEMENT OF CHANGES  
IN ASSETS AND LIABILITIES**

For the year ended June 30, 2008

	Balances 6/30/2007	Additions	Deductions	Balances 6/30/2008
<u>MIDDLE SCHOOL STUDENT COUNCIL</u>				
ASSETS:				
Cash in Bank	\$ 19,348	\$ 42,275	\$ 36,394	\$ 25,229
LIABILITIES:				
Due to Student Groups:				
NJHS	\$ 14	\$ 4,961	\$ 2,685	\$ 2,290
Music	632	8,705	8,942	395
Student Council	14,162	22,992	21,005	16,149
Athletics	2,740	5,617	3,762	4,595
Washington D.C.	1,800	-	-	1,800
TOTAL LIABILITIES	\$ 19,348	\$ 42,275	\$ 36,394	\$ 25,229
 <u>HIGH SCHOOL ACTIVITY FUND</u>				
ASSETS:				
Cash in Bank	\$ 63,622	\$ 82,272	\$ 83,812	\$ 62,082
LIABILITIES:				
Due to Student Groups				
Class of 2007	2,788	-	400	2,388
Class of 2008	2,731	6,296	9,027	-
Class of 2009	4,741	6,766	4,910	6,597
Class of 2010	1,804	3,838	979	4,663
Class of 2011	-	570	200	370
Building Use	1,549	740	1,869	420
Business Club	14	18	-	32
Creative Arts Club	1,027	63	-	1,090
Drama Club	5,424	7,532	6,223	6,733
French Club	801	1,583	836	1,548
Smith Scholarship	793	170	195	768
Industrial Arts Project	3,610	1,643	1,479	3,774
Key Club	1,634	4,346	4,969	1,011
Music	5,595	7,767	9,638	3,724
Natural Helpers	378	96	-	474
National Honor Society	108	2,231	2,251	88
Quill and Scroll	668	-	60	608
S.A.D.D.	390	-	-	390
Senior Magazine	746	1,196	-	1,942
Spanish Club	516	2,157	1,431	1,242
Weight Room	536	24	493	67
Student Activities	11,150	9,814	9,184	11,780
Student Council	1,167	3,557	3,572	1,152
Yearbook	13,182	8,518	14,302	7,398

See accompanying notes to financial statements.

**GLADSTONE AREA SCHOOLS**  
**COMBINING STATEMENT OF CHANGES**  
**IN ASSETS AND LIABILITIES**

For the year ended June 30, 2008

	Balances 6/30/2007	Additions	Deductions	Balances 6/30/2008
Driver Education	\$ 258	\$ 1,621	\$ 115	\$ 1,764
Photo Club	1,367	300	57	1,610
Youth in Government	157	11,426	11,610	(27)
John Hansen Scholarship	\$ 488	\$ -	\$ 12	\$ 476
<b>TOTAL LIABILITIES</b>	<b>\$ 63,622</b>	<b>\$ 82,272</b>	<b>\$ 83,812</b>	<b>\$ 62,082</b>

**JAMES T. JONES ACTIVITY FUND**

<b>ASSETS:</b>				
Cash in Bank	\$ 8,740	\$ 15,003	\$ 11,827	\$ 11,916
<b>LIABILITIES:</b>				
Due to Student Groups	\$ 8,740	\$ 15,003	\$ 11,827	\$ 11,916

**VOCATIONAL ACTIVITY FUND**

<b>ASSETS:</b>				
Cash in Bank	\$ 709	\$ 662	\$ 741	\$ 630
<b>LIABILITIES:</b>				
Due to Student Groups	\$ 709	\$ 662	\$ 741	\$ 630

**TOTAL - ALL AGENCY FUNDS**

<b>ASSETS:</b>				
Cash in Bank	\$ 92,419	\$ 140,212	\$ 132,774	\$ 99,857
<b>LIABILITIES:</b>				
Due to Student Groups	\$ 92,419	\$ 140,212	\$ 132,774	\$ 99,857

See accompanying notes to financial statements.

GLADSTONE AREA SCHOOLS

**SCHEDULE OF TAXABLE VALUATIONS,  
TAX RATES AND TAX LEVIES**

June 30, 2008

	<u>Taxable Valuation</u>	<u>Per \$1,000 Valuation</u>	<u>Tax Levy</u>
GENERAL FUND:			
(on Non-Homestead taxable valuation only)			
City of Gladstone	\$ 30,409,546	18.0	\$ 547,372
Escanaba Township	14,584,074	18.0	262,513
Brampton Township	4,550,025	18.0	81,900
TOTALS	<u>\$ 49,543,645</u>	<u>18.0</u>	<u>\$ 891,786</u>
DEBT RETIREMENT FUNDS:			
(on total taxable valuation)			
City of Gladstone	\$ 92,817,890	8.56	\$ 794,521
Escanaba Township	88,824,081	8.56	760,334
Brampton Township	21,261,522	8.56	181,999
TOTALS	<u>\$ 202,903,493</u>	<u>8.56</u>	<u>\$ 1,736,854</u>

See accompanying notes to financial statements.

## **SINGLE AUDIT**



**ANDERSON, TACKMAN & COMPANY, PLC**

CERTIFIED PUBLIC ACCOUNTANTS

OFFICES IN MICHIGAN AND WISCONSIN

Kristine P. Berhow, CPA, Principal  
Alan M. Stotz, CPA, Principal  
Raymond B. LaMarche, CPA, Principal  
Erkki M. Peippo, CPA, PC, Principal

Kevin C. Pascoe, CPA  
Laura L. Schwalbach, CPA

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER  
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
*GOVERNMENT AUDITING STANDARDS*

Board of Education  
Gladstone Area Schools  
Gladstone, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Gladstone Area Schools (the School District), as of and for the year ended June 30, 2008, which collectively comprise the School District's basic financial statements and have issued our report thereon dated October 31, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the School District's financial statements that is more than inconsequential will not be prevented or detected by the School District's internal control. We consider the following to be a significant deficiency:

Management was unable to produce financial statements and the required disclosures in accordance with accounting principles generally accepted in the United States of America.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the School District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the School District, in a separate letter dated October 31, 2008.

This report is intended solely for the information and use of management, the Board of Education, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Anderson, Tackman & Company P.C.*

Certified Public Accountants

October 31, 2008





**ANDERSON, TACKMAN & COMPANY, PLC**

CERTIFIED PUBLIC ACCOUNTANTS

OFFICES IN MICHIGAN AND WISCONSIN

Kristine P. Berhow, CPA, Principal  
Alan M. Stotz, CPA, Principal  
Raymond B. LaMarche, CPA, Principal  
Erkki M. Peippo, CPA, PC, Principal

Kevin C. Pascoe, CPA  
Laura L. Schwalbach, CPA

REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Education  
Gladstone Area Schools  
Gladstone, Michigan

Compliance

We have audited the compliance of the Gladstone Area Schools (the School District) with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the School District's management. Our responsibility is to express an opinion on the School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the School District's compliance with those requirements.

In our opinion, the School District, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of the School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of School District's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board of Education, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Anderson, Tackman & Company P.C.*

Certified Public Accountants

October 31, 2008

GLADSTONE AREA SCHOOLS

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

For the Year Ended June 30, 2008

<u>FEDERAL GRANTOR/PASS THROUGH PROGRAM TITLE</u>	<u>Project Number</u>	<u>Federal CFDA Number</u>	<u>Program or Award Amount</u>	<u>Prior Year Expenditures</u>	<u>Accrued (Deferred) Revenue 7/1/2007</u>	<u>Current Year Receipts</u>	<u>Current Year Expenditures</u>	<u>Current Year Revenue Recognized</u>	<u>Accrued (Deferred) Revenue 6/30/2008</u>
<u>U.S. Department of Agriculture:</u>									
<u>Received Directly:</u>									
U.S.D.A. Commodities - Entitlement	-	10.550	\$ 23,680	\$ 10,893	\$ (9,626)	\$ 17,549	\$ 18,714	\$ 17,549	\$ (8,461)
U.S.D.A. Commodities - Bonus	-	10.550	64	23	-	64	64	-	-
PROGRAM TOTAL			23,744	10,916	(9,626)	17,613	18,778	17,549	(8,461)
Passed Through the State Department of Education:									
National School Lunch - Breakfast Program	-	10.553	34,602	27,472	-	33,599	34,602	34,602	1,003
National School Lunch - Regular	-	10.555	163,820	153,015	-	159,745	163,820	163,820	4,075
PROGRAM TOTAL			198,422	180,487	-	193,344	198,422	198,422	5,078
TOTAL U.S. DEPARTMENT OF AGRICULTURE			222,166	191,403	(9,626)	210,957	217,200	215,971	(3,383)
<u>U.S. Department of Education:</u>									
<u>Received Directly:</u>									
Title V, Part C - Indian Education	-	84.060	32,420	28,474	28,474	28,474	32,420	32,420	32,420
Passed Through the State Department of Education:									
ECIA - Title I - 2006 Regular	61530-0506	84.010	190,038	6,434	-	-	-	-	-
ECIA - Title I - 2006 Carryover	61530-0607	84.010	6,343	6,343	-	-	-	-	-
ECIA - Title I - 2007 Regular	71530-0607	84.010	168,141	148,915	44,087	44,087	-	-	-
ECIA - Title I - 2008 Regular	81530-0708	84.010	199,585	-	-	44,806	195,650	195,650	150,844
PROGRAM TOTAL			564,107	161,692	44,087	88,893	195,650	195,650	150,844
Title II, Part A, Carryforward	60520-0607	84.367	6,261	6,261	-	-	-	-	-
Title II, Part A	70520-0607	84.367	83,248	82,214	38,015	38,015	-	-	-
Title II, Part A	80520-0708	84.367	84,329	-	-	14,659	61,926	61,925	47,267
Title II, Part D	74290-0607	84.318	1,663	1,663	-	-	-	-	-
Title II, Part D	84290-0708	84.318	1,590	-	-	-	1,590	1,590	1,590
PROGRAM TOTAL			177,091	90,138	38,015	52,674	63,516	63,515	48,857
Title V, Carryforward	60250-0607	84.298	8	8	8	8	-	-	-
Title V	70250-0607	84.298	346	346	346	346	-	-	-
PROGRAM TOTAL			691	354	354	354	337	337	337
Service Provider Self Review	80440-0708	84.027	-	-	-	-	4,500	4,500	4,500
TOTAL PASSED THROUGH THE STATE DEPARTMENT OF EDUCATION			741,889	252,184	82,456	141,921	264,003	264,002	204,538

See accompanying federal financial awards notes.

**GLADSTONE AREA SCHOOLS**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

For the Year Ended June 30, 2008

Project Number	Federal CFDA Number	Program or Award Amount	Prior Year Expenditures	Accrued (Deferred) Revenue 7/1/2007	Current Year Receipts	Current Year Expenditures	Current Year Revenue Recognized	Accrued (Deferred) Revenue 6/30/2008
Passed through the ISD:								
-	84.186	2,456	2,456	2,456	2,456	-	-	-
-	84.186	2,422	-	-	-	2,422	2,422	2,422
PROGRAM TOTAL								
		2,422	-	-	-	2,422	2,422	2,422
TOTAL PASSED THROUGH THE ISD								
		2,422	-	-	-	2,422	2,422	2,422
TOTAL PASSED THROUGH								
		744,311	252,184	82,456	141,921	266,425	266,424	206,960
TOTAL U.S. DEPARTMENT OF EDUCATION								
		776,731	280,658	110,930	170,395	298,845	298,844	239,380
TOTAL FEDERAL FINANCIAL ASSISTANCE								
		\$ 998,897	\$ 472,061	\$ 101,304	\$ 381,352	\$ 516,045	\$ 514,815	\$ 235,997

See accompanying federal financial awards notes.

## **GLADSTONE AREA SCHOOLS**

### **SCHEDULE OF FEDERAL FINANCIAL AWARDS NOTES**

For the year ended June 30, 2008

#### **NOTE A – OVERSIGHT AGENCY**

The U.S. Department of Education is the current year's oversight agency for the single audit as determined by the agency providing the largest share of the District's direct federal financial awards.

#### **NOTE B – BASIS OF ACCOUNTING**

The Schedule of Expenditures of Federal Awards has been prepared on the accrual basis of accounting.

#### **NOTE C – FEDERAL GRANT RECEIPTS**

All federal grant receipts of the Gladstone Area Schools are included in the scope of this report.

#### **NOTE D – FORM R7120/GRANT AUDITOR REPORT RECONCILIATION**

The amounts reported on the R7120 Grants Section Auditors Report, reconciles with the Schedule of Expenditures of Federal Awards.

#### **NOTE E – EXPENDITURE AGREEMENT**

The expenditures in the Schedule of Expenditures of Federal Awards are in agreement with the amounts reported in the financial statements and the financial reports for the Gladstone Area Schools.

#### **NOTE F – USDA COMMODITIES AGREEMENT**

The amounts reported in the Schedule of Expenditures of Federal Awards agrees with the Recipient Entitlement Balance Report for the USDA Donated Food Commodities for the Gladstone Area Schools.

## GLADSTONE AREA SCHOOLS

### SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2008

#### A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of the Gladstone Area Schools.
2. A significant deficiency was disclosed during the audit of the financial statements to be reported in the *Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*, and is detailed in part B of this schedule as item 08-1.
3. There were no instances of noncompliance material to the financial statements of the Gladstone Area Schools disclosed during the audit.
4. There were no material weaknesses disclosed during the audit of the major federal award programs to be reported in the *Report on Compliance with Requirements Applicable to each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133*.
5. The auditor's report on compliance for the major federal award programs for the Gladstone Area Schools expresses an unqualified opinion.
6. There were no audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The program tested as a major program was as follows:  
  
    Title I, CFDA #84.010  
    National School Lunch Program, CFDA #10.555  
    School Breakfast Program, CFDA #10.553
8. The threshold for distinguishing type A and B programs was \$300,000.
9. The Gladstone Area Schools does not qualify as a low-risk auditee.

## GLADSTONE AREA SCHOOLS

### **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

For the year ended June 30, 2008

#### **B. FINANCIAL STATEMENT AUDIT - FINDINGS**

##### **08-1. PREPARATION OF FINANCIAL STATEMENTS**

Condition/Criteria: The Gladstone Area Schools does not prepare their own financial statements.

Effect: Significant deficiency in internal controls over financial reporting as Gladstone Area Schools does not have the controls over preparation of the financial statements which would prevent or detect a misstatement in the financial statements.

Cause: Management was unable to produce financial statements and the required disclosures in accordance with accounting principles generally accepted in the United States of America.

Recommendation: None.

Management Response: Management intends to prepare the financial statements and the required disclosures in the future.



**GLADSTONE AREA SCHOOLS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

For the year ended June 30, 2008

**C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS  
AUDIT**

None.

**GLADSTONE AREA SCHOOLS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

For the year ended June 30, 2008

**D. RESOLUTION OF PRIOR YEAR FINDINGS**

There were no findings or questioned costs relating to the prior year.



**ANDERSON, TACKMAN & COMPANY, PLC**

CERTIFIED PUBLIC ACCOUNTANTS

OFFICES IN MICHIGAN AND WISCONSIN

Kristine P. Berhow, CPA, Principal  
Alan M. Stotz, CPA, Principal  
Raymond B. LaMarche, CPA, Principal  
Erkki M. Peippo, CPA, PC, Principal

Kevin C. Pascoe, CPA  
Laura L. Schwalbach, CPA

October 31, 2008

Board of Education  
Gladstone Area Schools  
Gladstone, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Gladstone Area Schools for the year ended June 30, 2008, and have issued our report thereon dated October 31, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated July 15, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

(Other Information in Documents Containing Audited Financial Statements)

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our letter about planning matters on July 15, 2008.

Significant Audit Findings

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Gladstone Area Schools are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year ended June 30, 2008. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the useful lives of fixed assets is based on experience with similar assets. We evaluated the key factors and assumptions used to develop the estimate

of the useful lives of fixed assets in determining that it is reasonable in relation to the financial statements taken as a whole.

#### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

#### *Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

#### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated October 31, 2008.

#### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

#### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Education, the management of the Gladstone Area Schools and appropriate state and federal grantor agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Anderson, Tackman & Company P.C.*

Certified Public Accountants

## **GLADSTONE AREA SCHOOLS**

### **COMMENTS AND RECOMMENDATIONS**

June 30, 2008

#### **TAX INCREMENT FINANCING PLAN REPORT**

During the audit we noted that step five, line 25 of form 2604 listing the captured assessed values does not match the value reported by the county to the Michigan Department of Education. As required by the Michigan School Auditing Manual we are reporting that discrepancy in this letter.

#### **HIGH SCHOOL TRUST AND AGENCY FUND**

During the audit we noted that there were five outstanding checks in the High School Trust & Agency Fund that are over a year old. These outstanding checks should be followed up on and escheated to the state, if appropriate.

#### **JOURNAL ENTRY REVIEW**

We noted during our audit of general journal entries that the entries are not reviewed by a second individual either prior to the entry or after the entry is posted. We recommend that a review process be instituted where general journal entries are periodically reviewed by a knowledgeable second individual. This will serve to enhance internal controls over journal entries.

#### **TITLE ONE REVENUE**

During our audit of the Title One program we noted that expenditure reimbursement requests were not timely submitted. No deadlines were missed, however, in the interest of timely cash flow we recommend that the reimbursement requests be filed in a timelier fashion.